

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF EAST KENTUCKY)	
POWER COOPERATIVE, INC. FOR THE SIX-)	CASE NO.
MONTH BILLING PERIOD ENDING DECEMBER 31, 2016,)	2017-00071
AND THE PASS THROUGH MECHANISM FOR ITS)	
SIXTEEN MEMBER DISTRIBUTION COOPERATIVES)	

ORDER

On February 21, 2017, the Commission initiated a six-month review of East Kentucky Power Cooperative, Inc.'s ("EKPC") environmental surcharge¹ as billed to its member distribution cooperatives ("Member Cooperatives") for the six-month period of July 1, 2016, to December 31, 2016. Pursuant to KRS 278.183(3), the Commission must: review, at six-month intervals, the past operations of the environmental surcharge; disallow any surcharge amounts that are found not to be just and reasonable; and reconcile past surcharges with actual costs recoverable. The February

¹ EKPC's environmental surcharge was initially approved in Case No. 2004-00321, *Application of East Kentucky Power Cooperative, Inc. for Approval of an Environmental Compliance Plan and Authority to Implement an Environmental Surcharge* (Ky. PSC Mar. 17, 2005).

21, 2017 Order also initiated a six-month review of the 16 EKPC Member Cooperatives' pass-through mechanism² as billed to their retail member customers for the six-month period July 1, 2016, to December 31, 2016.³

The Commission issued a procedural schedule that provided for two rounds of discovery, the filing of prepared testimony, and intervenor testimony. EKPC filed prepared direct testimony and responded to two requests for information. The Member Cooperatives responded to one round of discovery; Licking Valley Rural Electric Cooperative Corporation responded to an additional round of discovery. There were no parties requesting intervenor status to this proceeding. On May 22, 2017, EKPC filed a motion stating that EKPC and the Member Cooperatives believe the case record is complete and this case may be submitted for decision on the current record without a hearing.

SURCHARGE ADJUSTMENT

EKPC determined that it had no adjustments to its environmental costs for the period under review.⁴ The Commission has reviewed and finds reasonable EKPC's

² Case No. 2004-00372, *Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Inc., Farmers RECC, Fleming-Mason Energy Cooperative, Inc., Grayson RECC, Inter-County Energy Cooperative Corporation, Jackson Energy Cooperative Corporation, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Inc., Salt River Electric Cooperative Corporation, Shelby Energy Cooperative, Inc., South Kentucky RECC and Taylor County RECC for Authority to Pass Through the Environmental Surcharge of East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar. 17, 2005).

³ The Settlement Agreement approved in Case Nos. 2004-00321 and 2004-00372 allows the Member Cooperatives to pass through the environmental surcharge to their customers at approximately the same time EKPC bills the environmental surcharge to the Member Cooperatives, thus avoiding a billing lag for the Member Cooperatives. Therefore, the costs incurred from June 2016 through November 2016 are billed to the Member Cooperatives for the months of July 2016 through December 2016, with these same costs passed through to the member customers on their bills in August 2016 through January 2017.

⁴ EKPC's Response to Commission Staff's First Request for Information ("Staff's First Request"), Item 1 at 1.

calculation of no additional over- or under-recovery for the review period covered in this proceeding and finds no need for any subsequent adjustments to EKPC's environmental costs as a result of its review.

RATE OF RETURN

The Settlement Agreement approved in Case No. 2004-00321 provided that the rate of return would be based on a weighted average debt cost of the debt issuances directly related to the projects in EKPC's compliance plan, multiplied by a Times Interest Earned Ratio ("TIER") factor. The Settlement Agreement further provided that EKPC update the return as of the end of each six-month review period and request Commission approval of the updated average cost of debt.⁵

EKPC calculated a weighted average cost of debt as of November 30, 2016, of 4.045 percent. EKPC utilized the TIER factor of 1.50 authorized in Case No. 2011-00032.⁶ Utilizing these components, EKPC calculated an updated rate of return as of November 30, 2016, of 6.068 percent. EKPC proposed an overall rate of return of 6.068 percent be used starting with the first month following the final Order in this case.⁷

The Commission has reviewed and finds reasonable EKPC's determination of the updated rate of return of 6.068 percent, reflecting the updated weighted average cost of debt of 4.045 percent and a 1.50 TIER factor. The Commission finds that EKPC

⁵ Case No. 2004-00321, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Mar. 17, 2005), Order, Appendix A at 3.

⁶ Case No. 2011-00032, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Period Ending December 31, 2010; and the Pass-Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Aug. 2, 2011).

⁷ Direct Testimony of Isaac S. Scott at 12.

should use a rate of return of 6.068 percent for all environmental surcharge monthly filings submitted after the date of this Order.

RETAIL PASS-THROUGH MECHANISM

Each of the Member Cooperatives determined an over- or under-recovery for its surcharge pass-through mechanism, with six of the Member Cooperatives having over-recoveries and ten of the Member Cooperatives having under-recoveries. The Member Cooperatives' over- or under-recoveries were determined utilizing the revised calculation methodology approved in Case No. 2015-00281.⁸ EKPC stated that the Member Cooperatives proposed that the over-recoveries be refunded to, or the under-recoveries be collected from, ratepayers as an adjustment to the retail pass-through factor for each month in the six-month period following the Commission's Order in this proceeding. The Commission has reviewed and finds reasonable each of the Member Cooperatives' calculations of their respective over-recoveries and under-recoveries for the review periods covered in this proceeding. The Commission finds reasonable the Member Cooperatives' proposals to amortize their respective accumulated over- or under-recovery amounts in each of the first six billing months following the final Order in this proceeding. A schedule of the over- or under-recovery for each Member Cooperative and the related monthly adjustments are shown in the Appendix to this Order. The impact of the over or under-recovery on an average residential customer's monthly bill for each respective Member Cooperative is also indicated.

⁸ Case No. 2015-00281, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Periods Ending June 30, 2014 and December 31, 2014, for the Two-Year Billing Period Ending June 30, 2015 and the Pass Through Mechanism for Its Sixteen Member Distribution Cooperatives* (Ky. PSC Apr. 8, 2016).

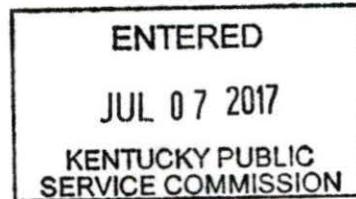
IT IS THEREFORE ORDERED that:

1. The amounts billed by EKPC through its environmental surcharge for the period July 1, 2016, to December 31, 2016, are approved.

2. EKPC shall use a rate of return of 6.068 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

3. EKPC's Member Cooperatives shall include the applicable monthly retail pass-through adjustments, shown in the Appendix to this Order, in the determination of each Member Cooperative's respective pass-through mechanism in each of the first six months following the date of this order, as discussed herein.

By the Commission



ATTEST:

A handwritten signature in blue ink, appearing to read "John H. ...", written over a horizontal line.

Acting Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00071 DATED **JUL 07 2017**

Member Cooperatives' Adjustments to Monthly Pass-Through Mechanism

The EKPC Member Cooperatives shall include the following monthly adjustments in the determination of the applicable pass-through factors for the first six months after the date of this Order.

	Total Amount of Over-Recovery	Monthly Amount To Be Returned	Monthly Bill Impact
Clark Energy Cooperative	\$46,680	\$7,780	\$0.24
Grayson RECC	\$19,631	\$3,272	\$0.20
Inter-County Energy Cooperative Corp.	\$50,227	\$8,371	\$0.27
Jackson Energy Cooperative	\$57,889	\$9,648	\$0.16
Licking Valley RECC	\$17,415	\$2,903	\$0.14
Taylor County RECC	\$24,559	\$4,093	\$0.12

	Total Amount of Under-Recovery	Monthly Amount To Be Collected	Monthly Bill Impact
Big Sandy RECC	\$1,519	\$253	\$0.01
Blue Grass Energy Cooperative	\$242,975	\$40,496	\$0.52
Cumberland Valley Electric	\$16,570	\$2,762	\$0.09
Farmers RECC	\$53,793	\$8,966	\$0.25
Fleming-Mason Energy Cooperative	\$77,998	\$12,999	\$0.42
Nolin RECC	\$7,617	\$1,270	\$0.03
Owen Electric Cooperative	\$411,719	\$68,620	\$0.48
Salt River Energy Cooperative Corp.	\$74,870	\$12,478	\$0.18
Shelby Energy Cooperative	\$32,454	\$5,409	\$0.20
South Kentucky RECC	\$218,727	\$36,455	\$0.39

*Big Sandy R.E.C.C.
Big Sandy R.E.C.C.
504 11th Street
Paintsville, KY 41240-1422

*Blue Grass Energy Cooperative Corp.
Blue Grass Energy Cooperative Corp.
1201 Lexington Road
P. O. Box 990
Nicholasville, KY 40340-0990

*Licking Valley R.E.C.C.
Licking Valley R.E.C.C.
P. O. Box 605
271 Main Street
West Liberty, KY 41472

*Taylor County R.E.C.C.
Taylor County R.E.C.C.
625 West Main Street
P. O. Box 100
Campbellsville, KY 42719

*Clark Energy Cooperative, Inc.
Clark Energy Cooperative, Inc.
2640 Ironworks Road
P. O. Box 748
Winchester, KY 40392-0748

*Owen Electric Cooperative, Inc.
Owen Electric Cooperative, Inc.
8205 Highway 127 North
P. O. Box 400
Owenton, KY 40359

*Farmers R.E.C.C.
Farmers R.E.C.C.
504 South Broadway
P. O. Box 1298
Glasgow, KY 42141-1298

*Cumberland Valley Electric, Inc.
Cumberland Valley Electric, Inc.
Highway 25E
P. O. Box 440
Gray, KY 40734

*Shelby Energy Cooperative, Inc.
Shelby Energy Cooperative, Inc.
620 Old Finchville Road
Shelbyville, KY 40065

*Fleming-Mason Energy Cooperative, In
Fleming-Mason Energy Cooperative, Inc.
1449 Elizaville Road
P. O. Box 328
Flemingsburg, KY 41041

*East Kentucky Power Cooperative, Inc.
4775 Lexington Road
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*Grayson R.E.C.C.
Grayson R.E.C.C.
109 Bagby Park
Grayson, KY 41143

*Nolin R.E.C.C.
Nolin R.E.C.C.
411 Ring Road
Elizabethtown, KY 42701-6767

*East Kentucky Power Cooperative, Inc
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
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Winchester, KY 40392-0707

*South Kentucky R.E.C.C.
South Kentucky R.E.C.C.
925-929 N Main Street
P. O. Box 910
Somerset, KY 42502-0910

*Inter-County Energy Cooperative Corp
Inter-County Energy Cooperative Corporation
1009 Hustonville Road
P. O. Box 87
Danville, KY 40423-0087

*Salt River Electric Cooperative Corp
Salt River Electric Cooperative Corp.
111 West Brashear Avenue
P. O. Box 609
Bardstown, KY 40004

*Jackson Energy Cooperative Corporati
Jackson Energy Cooperative Corporation
115 Jackson Energy Lane
McKee, KY 40447